

Maxine Goodman Levin College of Urban Affairs

Adaptive Reuse of Churches in the US: Market and Financing Issues

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ULI Book Project

- No Building Left Behind: New Uses for America's Religious Buildings and Schools
- Subject: finding sustainable new uses for religious buildings and schools in the United States.
- Project Team
 - Main Authors
 - Robert A. Simons, Ph.D. Cleveland State University
 - Larry Ledebur, Ph.D. Cleveland State University
 - Gary DeWine
 - Chapter Co-Authors
 - Youngme Seo, Ph.D.
 - Eugene Choi, Ph.D. candidate
 - Adam N. Saurwein, J.D.
 - Subha Vyakaranam, MUPDD
 - Scott Dimit, Dimit Architects
 - Rose Zitiello, City of Cleveland

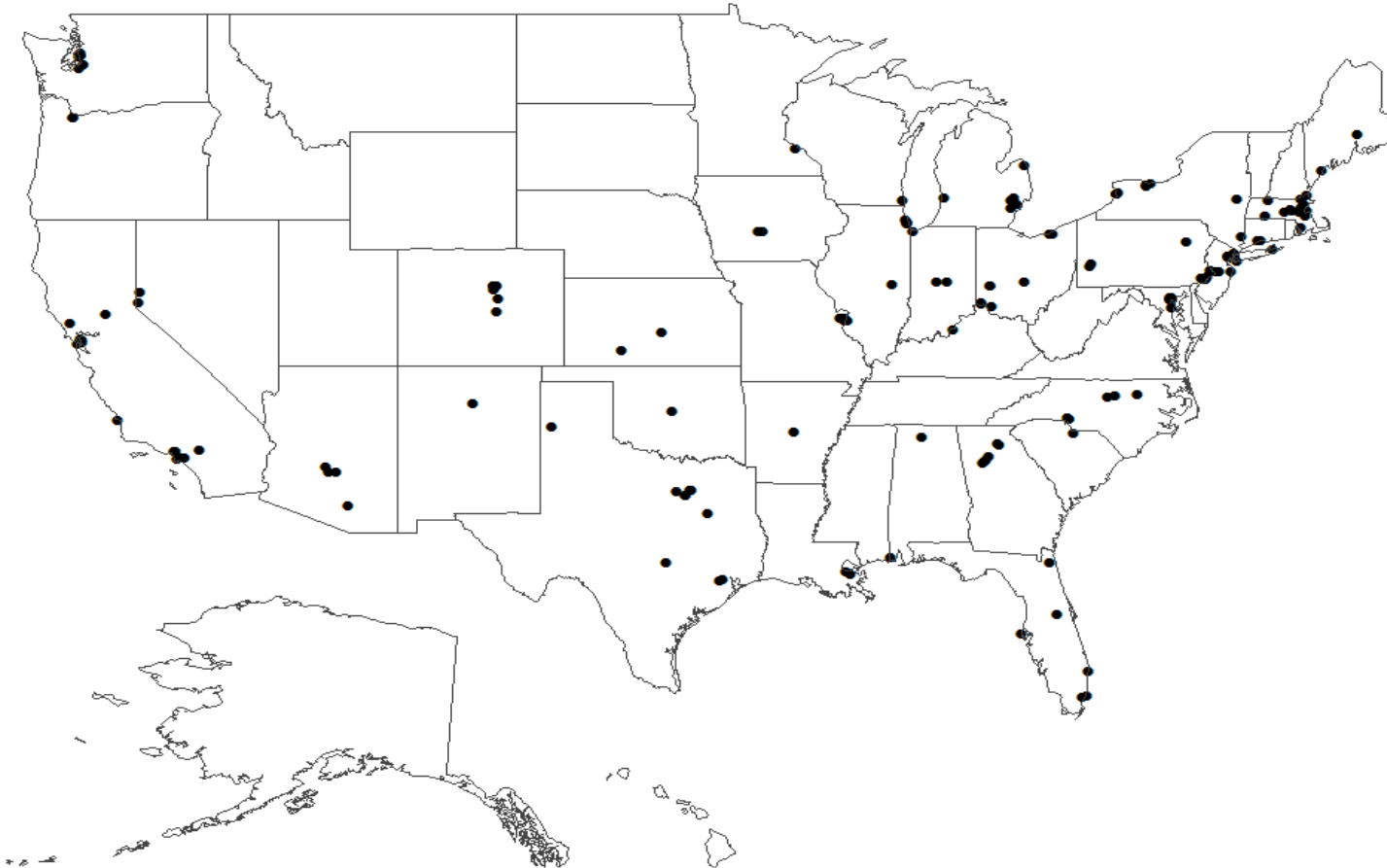


ULI Book Project, Continued

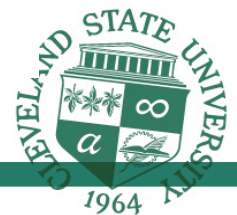
- Project Outline
 - Total 23 chapters including 11 case study chapters; 8 church cases and 3 school cases
 - The first part of the book addresses background of book projects including economics and reasons of surplus or abandoned churches and schools.
 - The second part of the book addresses market and financing issues.
 - The third part of the book addresses community and religious organization size issues.
 - The fourth part of the book provides detailed case studies



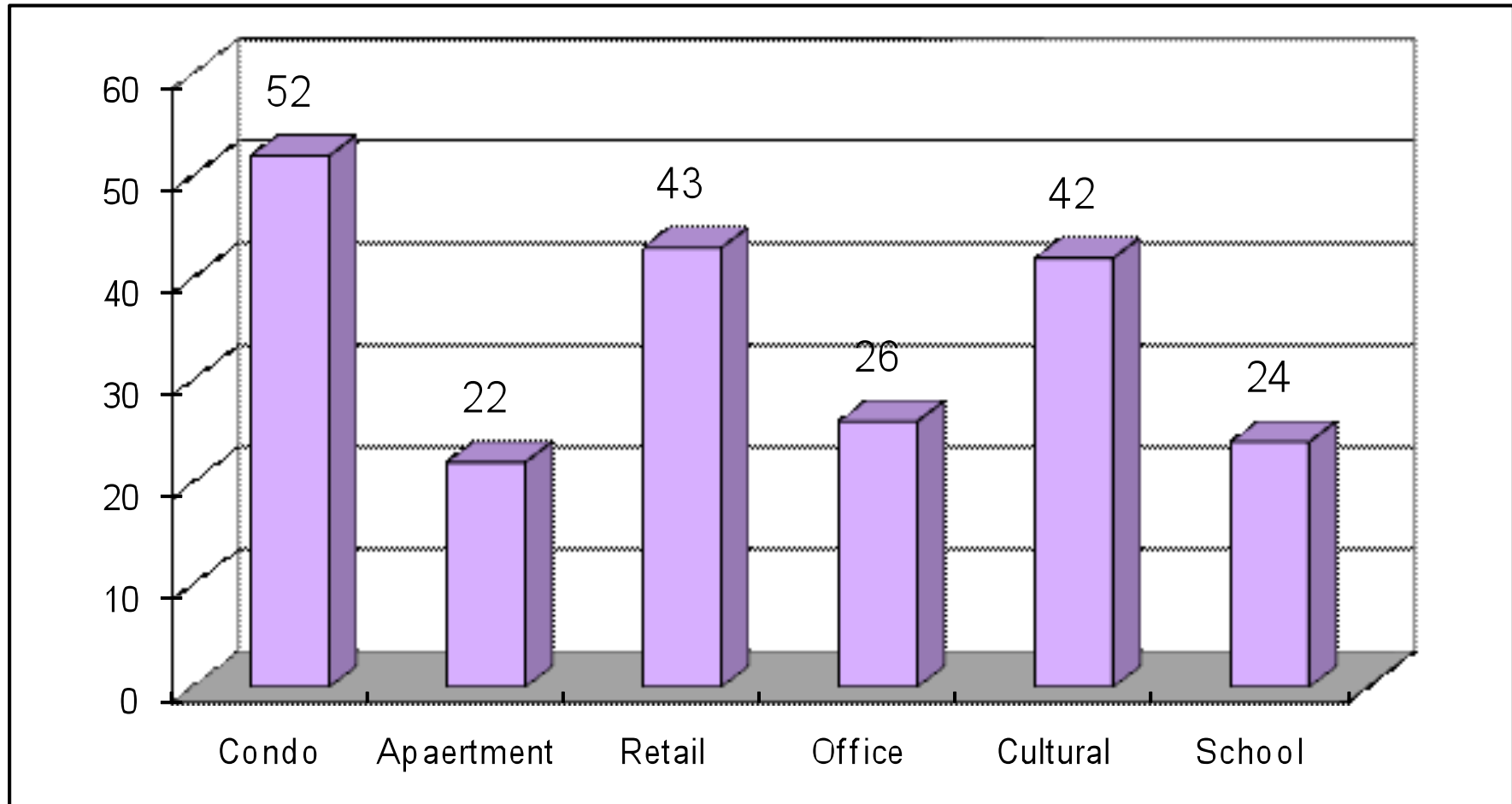
Church Reuse Projects: Distribution



- Religious Buildings (Reused)



Church Reuse Projects: Outcomes



Source: Eugene Choi Dissertation



Outcomes, Continued

(Eugene Choi Dissertation)

- Total: 210 religious buildings reused for different purposes in the US
- Residential Condo: 52 religious buildings (24.9%)
- Apartment: 22 religious buildings (10.5%)
- Retail: 43 religious buildings (20.6%)
- Office: 26 religious buildings (12.4%)
- Cultural: 42 religious buildings (20.1%)
- School: 24 religious buildings (11.5%)
- Industrial: 1 religious building



Market Demand Issues

- Supply side factors
 - Building characteristics: building size, lot size, number of stories, age, etc.
 - Seller's denomination: hierarchical sellers such as Catholic Churches
 - Public subsidy: tax credits including historic preservation tax credit, low income housing tax credit and new market tax credit



Market Demand Issues, continued

- Demand side factors
 - Location characteristics: central city, the proximity to parks, lakes, highways and airports, major street location, etc.
 - Demographic changes: income, race, educational level, etc.
 - Macro economic conditions: interest rate, unemployment rate, T-Bill rate, etc.



Regression Results of Peer-Reviewed Article (Simons and Choi, 2009)

Factors associated with Religious building and School redevelopment outcomes (Compared with Condos)

Variable	Apartment	Cultural	Office	Retail
Building Characteristics				
LNBLDSIZE	Larger**			
STORY		Fewer***	Fewer***	Fewer****
YRBLT	Younger****		Younger****	
[BLDM=STONE]				
[BLDM=WOOD]				
[BLDM=BRICK]	More Likely****			
Demographics				
YOUNG				Lower**
LNINCOME				
OWNER				
VACANCY	Higher***			
LNRENT				Lower***
Micro-Location Characteristics				
LNPARK				
LNLAKE				
LNHIGHWAY				Closer***
LNAIRPORT	Farther*	Closer*		Closer**



Regression Results of Peer Reviewed Article (Simons and Choi, 2009), continued

Variable	Apartment	Cultural	Office	Retail
[STREETTYPE=LOCAL]				
[STREETTYPE=MAIN]	More Likely****	More Likely*	More Likely****	More Likely***
[STREETTYPE=COLLECTOR]				
[CORNER=Y]	Less Likely****			
[INNERCITY=Y]		More Likely*	More Likely****	More Likely***
Macro-Economic Characteristics				
[D_MA=Y]			Less Likely*	More Likely**
[D_NY=Y]	Less Likely*	Less Likely**		
[D_DC=Y]	Less Likely****			
[D_NC=Y]				
[D_PA=Y]		Less Likely***		
[D_TX=Y]	Less Likely**		Less Likely***	Less Likely*
[D_GA=Y]				
[D_OH=Y]				More Likely***
YRDEVELOPED	Earlier**	Earlier**		
Sellers' Characteristics				
[D_CHURCH=Y]	Less Likely****	More Likely****	Less Likely***	More Likely****
[D_HIFAITH=Y]	More Likely***			Less Likely****

Note: *, **, ***, **** denote statistical significance at the 85%, 90%, 95% and 99% levels of confidence, respectively. Blanks denote the statistical significance below an 85% level of confidence.



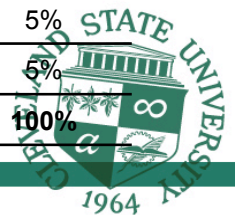
Development Costs

- New Construction Vs. Rehabilitation
 - Rehabilitation costs 5-25% less than new construction (Latham, 2000; ; Wang and Zeng, 2010)
- See the next slide for an example.



Development Costs, Example

<u>LINE ITEM</u>	<u>\$ OF NEW COSTS</u>	<u>% OF TOTAL COSTS</u>	<u>\$ OF REHAB COSTS</u>	<u>% OF TOTAL</u>
LAND / SITE ACQUISITION INCLUDING BUILDINGS	\$ 960,000	12%	\$ 1,575,000	21%
REMEDIATION/ASBESTOS		0%	\$ 75,000	1%
SITE PREPARATION, PARKING	\$ 640,000	8%	\$ 300,000	4%
DEMOLITION		0%	\$ 225,000	3%
Building Foundation	\$ 400,000	5%	\$ 150,000	2%
Envelope	\$ 1,440,000	18%	\$ 150,000	2%
Windows	\$ 480,000	6%	\$ 600,000	8%
HVAC	\$ 400,000	5%	\$ 525,000	7%
Electricity	\$ 240,000	3%	\$ 375,000	5%
Plumbing	\$ 160,000	2%	\$ 225,000	3%
Rough Carpentry	\$ 1,040,000	13%	\$ 1,050,000	14%
Finish	\$ 400,000	5%	\$ 450,000	6%
Other / Contingency	\$ 320,000	4%	\$ 450,000	6%
SOFT COSTS	\$ 720,000	9%	\$ 600,000	8%
FINANCING	\$ 320,000	4%	\$ 375,000	5%
DEVELOPER FEE	\$ 480,000	6%	\$ 375,000	5%
TOTAL	\$ 8,000,000	100%	\$ 7,500,000	100%



Project Financing

- Sources of debt
 - Construction loans
 - Permanent loans
 - Bridge loans
 - Mezzanine loans
 - Wrap-around mortgage/seller financing



Financing -equity

- Sources and types of equity
 - Developer and partner equity
 - Capital assets
 - In-kind services
 - Grants
 - Venture capital (VC) funds
 - Easements
 - Tax credits



Historic Preservation Tax Credit

- Administered by the National Parks Service in conjunction with State Historic Preservation Office
- 20% or 10% (depending on the project) federal tax credit for qualified rehabilitation expenses
- National historic registered
- Income producing properties, such as rental-residential, commercial, agricultural, or industrial.
- The property must be held by the tax credit applicant and used for an income-producing purpose during a five-year compliance period, or else the applicant risks having the tax credits revoked.
- Credits are great but may constrain future uses



Low Income Housing Tax Credit

- Administered by HUD
- When an adaptive reuse project involves the construction of affordable, residential rental property
- The property usually must operate under these income limits for at least a thirty-year compliance period, as determined by written agreements with the agency issuing the tax credits.
- The rates are nominally referred to as the 4% and the 9% credit rates, although the actual rates vary every month and are published monthly in a Revenue Ruling update by the IRS.



New Market Tax Credit

- Administered by the Department of the Treasury through the Community Development Financial Institutions Fund
- The Department of the Treasury does not award NMTCs directly to a development project or developer, but rather allocates tax credits for distribution to Community Development Entities.
- Income producing outcomes, not aimed at residential redevelopment.



Planning and Redevelopment Issues

- Developer Issues
 - Rehabs can be cheaper and quicker. Profit made on the buy price
- Planner Issues
 - Hierarchical religious entities arrive at their disposal decision “en-masse” (no pun intended- in batches).
 - Neighbors do not like change but have to be educated about adaptive reuse options.
 - Communities need to have funds to fill the financing gap.
 - Communities that allowed PUD or flexible zoning to allow different uses are ahead of the curve in getting reuse projects approved.
 - Consider the green or sustainable angles to these infill projects, and strive to reward them accordingly.
 - Passage of time facilitates redevelopment

